ISSUE DATE: September 14, 1995

DOCKET NO. G-001/M-95-157

ORDER GRANTING APPROVAL OF REQUEST TO CHANGE DEMAND ENTITLEMENTS, WITH MODIFICATION

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Joel Jacobs	Chair
Tom Burton	Commissioner
Marshall Johnson	Commissioner
Dee Knaak	Commissioner
Don Storm	Commissioner

In the Matter of a Request from Interstate Power Company for Approval to Change Its Demand Entitlements

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PROCEDURAL HISTORY

On February 24, 1995, Interstate Power Company (Interstate or the Company) filed a request for approval of a change in its demand entitlements for 1994-95. Interstate proposed realigning its purchased gas adjustment (PGA) to correspond with new levels of transportation contracts assigned to it by the Northern Natural Gas (NNG) pipeline.

Interstate amended its filing on March 20 and March 24, 1995.

On April 12, 1995, the Department of Public Service (the Department) submitted comments recommending approval of the Company's request.

On August 31, 1995, Interstate's petition came before the Commission for consideration.

FINDINGS AND CONCLUSIONS

I. FACTUAL BACKGROUND

On September 20, 1994, the Commission approved Interstate's proposed conversion of 1994 demand entitlements to conform to NNG's post-FERC 636 services and tariffs.[1] In that Order

[1] In the Matter of a Request by Interstate Power Company for Approval to Increase Its Pipeline Demand Entitlements and to Recover the Associated Costs in Its Monthly Purchased Gas Adjustment Pursuant to Federal Energy Regulatory Commission Order 636, Docket No. G-001/M-93-1219, ORDER APPROVING PETITION AND REQUIRING FILING.

the Commission approved Interstate's proposal to recover NNG's System Management Service (SMS) and Firm Deferred Delivery (FDD) charges as commodity costs, and to recover those commodity costs from firm and interruptible sales customers.

System Management Service is a post-FERC 636 no-notice transportation service for which NNG bills reservation and capacity charges. SMS allows local distribution companies (LDCs) to use contracted (reserved) amounts of transportation (capacity) on a no-notice basis without incurring out-of-balance penalties.

Firm Deferred Delivery is NNG's firm gas storage service. FDD provides LDCs with a firm supply of gas during the heating season and helps ensure that LDCs can deliver gas to their firm sales customers on peak-days during the heating season.

II. POSITIONS OF THE PARTIES

A. Interstate

Interstate requested approval of a change in its demand entitlement portfolio to include a new blend of TF 12-B and TF 12-V. The change would reflect the new level of transportation contracts assigned to Interstate by NNG. Interstate also requested approval of a corresponding realignment of its PGA recovery.

Interstate opposed the Department's recommendation that SMS and FDD charges be treated as demand costs. Interstate offered several reasons that the SMS and FDD charges should be recovered from firm and interruptible sales customers as commodity costs: 1) there is historical precedent for this type of treatment prior to FERC Order 636; 2) the Commission should not depart from its previous decision and reasoning; and 3) firm customers will be penalized if Interstate is not allowed to treat these charges as commodity costs.

B. The Department

The Department noted that Interstate was requesting a restructure of its demand entitlement portfolio without a change in its overall demand entitlement level. The Department stated that both the level and the requested restructure of the demand entitlements were reasonable.

At the August 31 meeting, the Department strongly opposed Interstate's classifying SMS reservation charges and FDD reservation and capacity charges as commodity costs and recovering the costs from both firm and interruptible sales customers. According to the Department, interruptible sales customers are distinct from firm sales customers because the interruptible customers receive a lower price in return for their acceptance of a lower reliability of service. The interruptible sales customers are not contributing to demand costs because these customers will be curtailed when the Company nears peak. The Department stated that Interstate should recover NNG's SMS reservation and FDD reservation and capacity charges from firm sales customers as a demand component in the PGA.

III. COMMISSION ACTION

A. The Company's Request for a Change in Demand Entitlements

The Commission agrees with the Department's recommendation to approve Interstate's requested change in its demand entitlement portfolio to include a new blend of TF 12-B and TF 12-V. The change in entitlements appropriately reflects the new level of transportation contracts assigned to Interstate by NNG.

B. The Treatment of the Company's SMS and FDD Charges

When the Commission issued its September 20, 1994, Order determining Interstate's 1994 demand entitlements, the Commission was addressing one of the first utility demand entitlement requests since FERC Order 636 profoundly affected the structure of the gas industry. Since the 1994 Order was issued, the Commission has had the opportunity to review demand entitlement issues in a number of gas utility entitlements petitions. The review has taken place against the backdrop of the post-636 era, which the Commission has noted is in a "stage of transition and development." September 20, 1994, Order at p. 5.

Upon review and reflection, the Commission finds that Interstate's SMS reservation and FDD reservation and capacity fees must be classified as demand in the Company's PGA and charged to the Company's firm sales customers. As the Department has pointed out, these charges are classified as demand when they are assessed by NNG. They represent fixed reservation and capacity charges which appropriately fit the traditional definition of demand.

As demand charges, the SMS and FDD charges are properly recovered from firm sales customers. SMS and FDD levels are based on the needs of firm customers to reserve capacity during peaking period (winter) and shoulder periods (spring and fall), when periods of cold weather are likely to occur. Because interruptible customers are ready, and indeed contractually bound, to curtail when the Company nears peak, these customers do not contribute to the need to reserve capacity. Interruptible sales customers therefore should not be required to share in the SMS and FDD demand charges.

Interstate's classification of the SMS and FDD charges as demand will be consistent with the treatment of these charges by every other Minnesota gas utility.[2]

The Commission is not persuaded by any of the reasons advanced by Interstate to support classifying the SMS and FDD charges as commodity. First, the fact that this may have been the treatment of choice before FERC Order 636 is irrelevant, since that Order has so profoundly changed the structure of the gas industry. Second, the Commission is not bound to remain with its former treatment of Interstate's SMS and FDD charges, because the Commission has

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[2] See, for example, Western Gas Utilities' classification of FDD reservation and capacity charges. In the Matter of a Request by Western Gas Utilities, Inc. for Approval to Increase and Change Its Pipeline Demand Entitlements and to Recover the Associated Costs in Its Monthly Purchased Gas Adjustment, Docket No. G-012/M-93-1251, ORDER APPROVING INCREASED ENTITLEMENTS, REQUIRING CLASSIFICATION OF CERTAIN FDD RATE ELEMENTS AS DEMAND COSTS, AND REQUIRING A REFUND (December 20, 1994).

articulated definite reasons for its departure. Finally, classifying SMS and FDD charges as demand costs, allocable to firm customers in the PGA, does not penalize firm customers because they alone are the means by which the utility measures its capacity needs. Interruptible customers, subject to curtailment if the utility's capacity would otherwise be exceeded, do not contribute to the demand costs.

For these reasons, the Commission will require Interstate to modify its demand entitlements proposal by classifying its SMS reservation charges and FDD reservation and capacity fees as demand costs and recovering those costs from firm sales customers in the PGA.

ORDER

1. The Commission approves Interstate's request to change its demand entitlement portfolio and the associated PGA cost recovery with one modification: Interstate shall classify its SMS reservation charges and FDD reservation and capacity fees as demand costs and recover those costs from firm sales customers in the PGA.

2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)